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FM AMEMBASSY SANTO DOMINGO
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INFO WHA CENTRAL AMERICAN COLLECTIVE PRIORITY
AMEMBASSY BRIDGETOWN PRIORITY
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AMEMBASSY GEORGETOWN PRIORITY
AMEMBASSY KINGSTON PRIORITY
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AMEMBASSY PARAMARIBO PRIORITY
AMEMBASSY PORT AU PRINCE PRIORITY
AMEMBASSY PORT OF SPAIN PRIORITY
NSC WASHDC PRIORITY
DEPT OF TREASURY WASHDC PRIORITY
USINT HAVANA PRIORITY
USDOC WASHDC PRIORITY 1786
DIA WASHDC PRIORITY
CDR USSOUTHCOM MIAMI FL PRIORITY
CIA WASHINGTON DC PRIORITY

C O N F I D E N T I A L SANTO DOMINGO 000426

STATE FOR WHA/CAR, LA PAZ FO A/DCM C LAMBERT

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TAGS: [ECON](#) [EFIN](#) [PREL](#) [DR](#)

SUBJECT: GODR ACKNOWLEDGES RECESSION POSSIBLE; CONCERNED
OVER INCREASED PROTESTS

Classified By: CDA Richard Goughnour, easons 1.4(b), (d)

1.(SBU)Summary: At the InterAmerican Development Bank (IDB) annual meeting i Colombia, Minister of Finance Vicente Bengoa sad the Dominican economy is going through a process of deceleration that could lead to recession and alled for a special assembly of the IDB to be hed in June to address the economic crisis. He sad the crisis could lead to a social explosion inLatin America and noted that the GODR does not have the resources to protect the most vulnerable sectors of society which could lead to problems of governability. Bengoa also reportedly criticized the USG for blocking efforts to increase the capital for the IDB. Minister of Economy, Development and Planning Temistocles Montas endorsed Bengoa's comments on the local impact of the global crisis and said it is time for the people to recognize the real economic situation of the country which is limiting the government's ability to respond to social needs. Increasing protests over lack of basic services in communities across the country may force the GODR to reevaluate its spending priorities and seek increased external funding in order to provide services such as paved roads and water. While government statistics are not yet available, private bankers estimate remittances over the last six months have fallen 20-30 percent. Montas said projected government revenue fell about 10 percent in the first quarter and that the USD 300 million projected in the budget from PetroCaribe financing would probably only reach USD 150 million this year. The tourism sector is also facing great uncertainty as the high season comes to an end. End Summary.

Change in Government tune?

12. (SBU) On March 30, during the annual IDB meeting in Medellin, Finance Minister Vicente Bengoa called for a special assembly of the IDB to be held in June to address the regional impact of the global economic crisis. Bengoa expressed concern that the crisis could lead to a social explosion in Latin America. He said the Dominican economy is experiencing a process of deceleration that could lead to recession if the government is unable to increase internal demand through public spending. Bengoa acknowledged that the GODR does not have the resources to protect the most vulnerable sectors of society which could lead to problems of governability. The Dominican media widely reported Bengoa's

comments which were the first time a GODR official has acknowledged the potential severity of the economic crisis in the DR. However, it is not clear whether Bengoa and the Fernandez Administration have completely changed their tune since he also repeated the GODR prediction that GDP will still grow 3 percent this year. Bengoa also reportedly criticized the USG for blocking efforts to increase the capital for the IDB.

13. (U) The next day, Minister of Economy, Development and Planning Temistocles Montas told the media that Bengoa's remarks had opened the door to discussing what really is happening in the Dominican economy. While noting that the economic situation is putting pressure on government resources, he said the GODR is committed to protecting the most vulnerable sectors. Montas said fiscal revenues fell 10 percent in the first quarter of the year. (Note: According to Bengoa they fell 7 percent, but no official data has been released. End Note.) He added that the USD 300 million projected in the budget from PetroCaribe financing would probably only reach USD 150 million this year. Montas also warned that the fiscal deficit will be greater than the 1.7 percent projected. Both Montas and Bengoa have stated that external financing from international institutions such as the IDB is the only option for the GODR.

14. (C) According to the U.S. Treasury advisor from the Office of Technical Assistance who is working in the Office of Public Credit at the Ministry of Finance, there continue to be major policy disagreements among the members of the economic team. During recent discussions about revisions to the projected deficit, the Central Bank insisted on maintaining the 3 percent GDP growth projection while the Ministry of Economy, Planning and Development argued for a more reasonable yet still positive 1 percent. The Treasury advisor also expressed concern over the lack of spending oversight as the GODR is facing a USD 15 billion cash deficit for the first quarter alone.

Private sector pessimistic

15. (C) While government statistics are not yet available, private bankers estimate remittances over the last six months have fallen 20-30 percent. An official from Scotia Bank told Econoff that the GODR may have to revise the estimate for 2008 remittances of USD 3.1 billion down slightly and that the numbers for 2009 are down significantly. He noted that the full impact of the crisis has not yet hit the DR and the private sector is wary about the short-term outlook. The banker acknowledged that the GODR has always been fairly slow in publishing government statistics, partly due to bureaucracy. However, there is increasing frustration with the GODR's lack of transparency as some critics believe the government may be deliberately withholding data in order to maintain a rosy outlook on the economy. The Treasury advisor confirmed to Econoff that while the accounting office at the Ministry of Finance is woefully incompetent, there is also a deliberate effort by the Ministry to conceal negative information about the economy.

16. (U) The private sector is also concerned about the outlook for the tourism sector as it moves into the low season. For just the second time since 1991, tourist arrivals fell in the Dominican Republic during the peak months of January and February. The 4.2 percent drop in nonresident foreigner arrivals, compared to the same two months in 2008, resulted from lower numbers of visitors from the United States and Europe, while Canadian visitors came in greater numbers. Hotel occupancy fell 8.1 percent in January, dropping below the 80 percent benchmark. The president of Punta Cana's hotel association told EconOff that the sector had braced for an even worse impact from the global economic downturn; he characterized the peak season results as "on the low side of what is manageable." In a speech to the American Chamber of Commerce, National Hotel and Restaurant Association President Haydee Kuret de Rainieri said the current crisis should be a

wake-up call to the country to fortify its competitiveness in terms of quality tourism. Even though the Dominican Republic has become the top destination in the Caribbean in terms of sheer numbers, she said that those who come here spend less than in country's with better developed and more diverse tourism options, such as Barbados.

Social unrest

¶7. (U) During the first quarter of the year, the Government has faced an increasing number of protests that, while not directly related to the international economic downturn, certainly contribute to the general unease in a time of economic and social uncertainty. A study by the newspaper Clave Digital showed that the number of protests to-date in 2009 is double the average rate in the previous three years. In Santiago province alone, there have been 29 demonstrations this year. Nearly all of the protests are local in nature and have as their demands small infrastructure improvements (principally roads) and improvements in services such as water and electricity. Protestors often intentionally block roads, which leads to a police response and occasional violence. Two deaths have been reported nationwide.

¶8. (U) The opposition PRD has expressed support for the protestors' cause, while denying a role in organizing the demonstrations. In comments to the press, Miguel Vargas Maldonado, the party's 2008 presidential candidate, attributed the protests to the Government's overall "lack of management (and their focusing on constructing expensive) new subway lines (in Santo Domingo), while the avenues and local streets fall to pieces and the people don't have money for food and medicine."

¶9. (SBU) The Minister of Interior and Police, Franklin Almeyda, accused the PRD of directing the protests and of being "violent by nature." However, independent observers disagree. Commentator Rosario Espinal argues that the PRD "doesn't have the capacity to generate protests.... It's goal is to return to power and it doesn't have an interest in being perceived as revolutionary. These protests are a result of (problems) in the communities and the (organizational) work done by small organizations such as FALPO (Broad Front for Popular Struggle)." Sociologist Tahira Vargas faults the weakness of the Government's mechanisms for receiving input and complaints from the citizenry. "This reinforces the idea that (protests) are the only option to get the (Government) to take notice."

Comment

¶10. (C) On March 31, President Fernandez announced plans to work with local districts to address the needs of the communities and to implement a national plan to pave roads and build sidewalks. It remains to be seen whether this will be enough to appease the protesters for the moment. If the economic situation worsens and job losses increase, the government may be forced to reevaluate its rosy outlook on the country's ability to weather the global crisis. The comments from Bengoa and Montas appear to be a step in this direction; however, it is not clear whether the President supports this change. Increased transparency regarding the state of the economy may not be politically appealing to Fernandez, but the potential for social unrest may be greater if the public feels that they have been deceived by the government. End Comment.

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